

PEBBLE BEACH VILLAS, INC.

VERO BEACH, FLORIDA

FINANCIAL STATEMENTS

AND

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

For Year Ended December 31, 2019

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Independent Accountant's Review Report

Board of Directors
Pebble Beach Villas, Inc.

I have reviewed the accompanying financial statements of Pebble Beach Villas, Inc. which comprises the balance sheet as of December 31, 2019, and the related statement of revenues and expenses and changes in fund balances, statement of cash flows, and the related notes to the financial statements for the year then ended. A review includes primarily analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair representation of the financial statements that are free from material misstatement due to fraud or error.

Accountant's Responsibility

My responsibility is to conduct the review, in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United State of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Emphasis of Matter

Effective with the year ending December 31, 2019 the Association has adopted the required changes in procedures and reporting regarding "Revenue Recognition" under ASC 606. These significant changes are explained in Notes 3 and 7.

Accountant's Conclusion

Based on my review, I am not aware of any material modification that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Other Matters – Supplementary Information

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The Schedule of Revenues and Expenses – Actual vs. Budget is presented only for supplementary analysis purposes. Such information (except for the budget information, which was compiled without any form of assurances) has been subjected to the review procedures applied in the review of the basic financial statements, and I am not aware of any material modifications that should be made to this supplementary information.

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The supplementary information about Future Major Repairs and Replacements of Common Property following the basic financial information is not a required part of the basic financial statements but is supplementary information required by the Financial Accounting Standards Board. I have compiled this supplementary information from information that is the representation of management of Pebble Beach Villas, Inc. without audit or review. Accordingly, I do not express an opinion, a conclusion, or any other form of assurance on this supplementary information.

Report on Summarized Comparative Information:

I have previously reviewed Pebble Beach Villas, Inc.'s 2018 financial statements and had expressed an unmodified opinion on those financial statements in my report dated January 19, 2019. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

Gerald Jackson Jr

February 5, 2020

PEBBLE BEACH VILLAS, INC.
Balance Sheet
December 31, 2019

| | December 31, 2019 | | | 12/31/18 |
|---|-------------------|---------------------|-------------------|-------------------|
| | Operating Fund | Replacement Fund | Total Funds | Total Funds |
| <u>ASSETS</u> | | | | |
| Cash | 68,707 | 409,906 | 478,613 | 458,409 |
| Assessments Receivable | 501 | 0 | 501 | 791 |
| Prepaid Insurance | 24,512 | 0 | 24,512 | 17,458 |
| Other Prepaid Expenses | 0 | 0 | 0 | 2,729 |
| TOTAL ASSETS | \$ 93,720 | \$ 409,906 | \$ 503,626 | \$ 479,387 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Accounts Payable | \$ 871 | \$ 1,965 | \$ 2,836 | \$ 2,709 |
| Assessments Paid in Advance | 24,465 | 0 | 24,465 | 19,218 |
| Income Taxes Payable | 1,039 | 0 | 1,039 | 0 |
| Deferred Revenue (Note 3) | 0 | 407,941 | 407,941 | 376,981 |
| TOTAL LIABILITIES | 26,375 | 409,906 | 436,281 | 398,908 |
| TOTAL FUND BALANCES | 67,345 | 0 | 67,345 | 80,479 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 93,720 | \$ 409,906 | \$ 503,626 | \$ 479,387 |

PEBBLE BEACH VILLAS, INC.
Statement of Revenues, Expenses and Changes in Fund Balance
For the Year Ended December 31,2019

| | 2019 | | | 2018 |
|---|-------------------|---------------------|------------------|------------------|
| | Operating Fund | Replacement Fund | Total Funds | Total Funds |
| <u>REVENUES</u> | | | | |
| MAINTENANCE ASSESSMENTS | \$ 288,330 | \$ 59,970 | \$ 348,300 | \$ 348,264 |
| INTEREST INCOME | 254 | 5,636 | 5,890 | 2,203 |
| LAUNDRY AND OTHER INCOME | 3,332 | 0 | 3,332 | 3,276 |
| TOTAL REVENUES | 291,916 | 65,606 | 357,522 | 353,743 |
| <u>EXPENSES</u> | | | | |
| ADMINISTRATIVE | 138,772 | 0 | 138,772 | 142,801 |
| BUILDING OPERATIONS | 54,208 | 0 | 54,208 | 51,402 |
| GROUNDS/LANDSCAPE CARE | 54,223 | 0 | 54,223 | 51,727 |
| RECREATION FACILITIES | 6,315 | 0 | 6,315 | 6,038 |
| UTILITIES | 41,928 | 0 | 41,928 | 38,759 |
| OTHER | 9,604 | 0 | 9,604 | 1,495 |
| MAJOR REPAIRS AND REPLACEMENTS | 0 | 34,646 | 34,646 | 38,410 |
| TOTAL EXPENSES | 305,050 | 34,646 | 339,696 | 330,632 |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENSES | (13,134) | 30,960 | 17,826 | 23,111 |
| FUND BALANCES, BEGINNING OF YEAR | 80,479 | 0 | 80,479 | 434,349 |
| RESTATEMENT PER ASC 606 | 0 | (30,960) | (30,960) | (376,981) |
| FUND BALANCES, END OF YEAR | \$ 67,345 | \$ 0 | \$ 67,345 | \$ 80,479 |

Read Independent Accountant's Review Report

PEBBLE BEACH VILLAS, INC.
Statement of Cash Flows
For Year Ended December 31,2019

| INCREASE(DECREASE) IN CASH | 2019 | | | 2018 |
|---|---------------------------|-----------------------------|------------------------|------------------------|
| | Operating Fund | Replacement Fund | Total Funds | Total Funds |
| CASH FLOW FROM OPERATING ACTIVITIES: | | | | |
| Cash Receipts From Assessments | \$ 293,867 | \$ 59,970 | \$ 353,837 | \$ 360,682 |
| Interest Income Received | 254 | 5,636 | 5,890 | 2,203 |
| Other Income Received | 3,332 | 0 | 3,332 | 3,276 |
| Cash Payments to Vendors and Suppliers | (310,174) | (32,681) | (342,855) | (324,260) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (12,721) | 32,925 | 20,204 | 41,901 |
| NET INCREASE (DECREASE) IN CASH FOR CURRENT YEAR | (12,721) | 32,925 | 20,204 | 41,901 |
| CASH AT BEGINNING OF YEAR | 81,428 | 376,981 | 458,409 | 416,508 |
| CASH AT END OF YEAR | \$ 68,707 | \$ 409,906 | \$ 478,613 | \$ 458,409 |

**RECONCILIATION OF EXCESS OF ASSESSMENTS AND REVENUES
OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

CASH FLOWS FROM OPERATING ACTIVITIES

| | | | | |
|--|--------------------|------------------|------------------|------------------|
| Excess (deficit) of revenues over expenses | \$ (13,134) | \$ 30,960 | \$ 17,826 | \$ 23,111 |
| Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities: | | | | |
| (Increase) Decrease in: | | | | |
| Assessments Receivable | 290 | 0 | 290 | 742 |
| Prepaid Expenses | (4,325) | 0 | (4,325) | 3,752 |
| Increase (Decrease) in: | | | | |
| Accounts Payable | (1,838) | 1,965 | 127 | 2,520 |
| Income Taxes Payable | 1,039 | 0 | 1,039 | 0 |
| Assessments Received in Advance | 5,247 | 0 | 5,247 | 11,776 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ (12,721) | \$ 32,925 | \$ 20,204 | \$ 41,901 |

PEBBLE BEACH VILLAS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND PURPOSE

Pebble Beach Villas, Inc. was organized as a Florida not-for-profit corporation on March 10, 1975. The Association has been organized for the purpose of operating and maintaining the common property of the Association; to enforce the covenants, conditions, restrictions, and other provisions pursuant to Chapter 718 of the Florida Statutes, and as set forth in Declaration of Condominium, the Articles of Incorporation, the By-Laws, and rules and regulations of the Association. The Association consists of a total of 72 units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The financial statements have been prepared using the accrual basis of accounting pursuant to Section 718 of the Florida Statutes. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund

This fund is used to account for financial resources available for general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements. Minor amounts of personal property and equipment acquired by the Association are recorded as operating fund expenses in the year incurred.

Accounting Estimates

The preparations of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Allocation of Revenues and Expenses

The revenues and expenses of the Association are allocated to the unit owners based on the size of each unit.

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PEBBLE BEACH VILLAS, INC.
NOTES TO FINANCIAL STATEMENTS

Member Assessments

Association members are subject to monthly assessments in advance, to provide funds for the Association's operating expenses and a reserve for major repairs and replacements. The annual budget and member assessments are determined and approved by the Board of Directors. The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are past due.

Interest Earned

The Board's policy is to allocate interest earned on replacement fund investments to the replacement fund.

Income Taxes

A condominium association may elect to be taxed either as a regular corporation or as community association. For the year ended December 31, 2019, the Association has elected to be taxed as a homeowners association. The Association is taxed on its non-exempt income, such as interest income (net of allowable expenses). Exempt income, which consists primarily of member assessments, is not taxable. The Association's tax liability for 2015 was zero.

In June 2006, the Financial Accounting Standards Board prescribed a comprehensive model for how a company should measure, recognize, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The opinion was amended in 2009 to more accurately reflect the applicability to Not-For-Profit entities such as Associations. The Association has adopted this pronouncement as amended as of January 1, 2009.

Currently, the tax years open and subject to examination by the Internal Revenue Service are the 2017, 2018, and 2019 returns. However, the Association is not currently under audit and has not been contacted that a possible audit may be initiated. Also, the Association had no uncertain tax positions as of December 31, 2019.

Subsequent Events

Management evaluated the existence of any subsequent events through February 3, 2020, the date the financial statements were available to be issued and no material items existed.

Fair Value Measurement

Under FASB ASC 820, *Fair Value Measurements and Disclosures* (SFAS No. 157), fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the most advantageous market for the asset or liability.

The Association has determined that there was no material difference between the carrying value and fair value of its financial assets and liabilities at December 31, 2019;

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PEBBLE BEACH VILLAS, INC.
NOTES TO FINANCIAL STATEMENTS

therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2019.

Deferred Revenue (Assessments Received in Advance-Replacement Fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. Deferred revenue (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balance of deferred revenue (assessments received in advance-replacement fund) as of the beginning and end of the year are \$376,981 and \$407,941, respectively.

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is required by Section 718 of the Florida Statutes to fund future major repairs and replacements. Also, the Association's governing documents require funds be accumulated for future major repairs and replacements

As required by ASC 606 the accumulated funds, which total \$407,941 as of December 31, 2019 are presented on the accompanying balance sheet as deferred revenue (assessments received in advance-replacement fund).

The Board is funding for such major repairs and replacements over the estimated useful lives of the components based on the Board of Directors update of current replacement costs, considering amount previously accumulated in the replacement fund. Actual expenditures may vary from the estimated future amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs for major repairs and replacement. If additional funds are needed, however, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Current year activity by the various components:

| Component | Beginning Balance | Current Year Funding | Current Year | | Ending Balance |
|-----------------------|----------------------|-------------------------|--------------|-----------------|-------------------|
| | | | Interest | Expended | |
| Building | 61,814 | 5,706 | 931 | (969) | 67,482 |
| Recreation | 17,226 | 1,729 | 225 | (3,449) | 15,731 |
| Painting | 80,529 | 0 | 1,149 | 0 | 81,678 |
| Paving | 52,694 | 5,288 | 484 | (28,263) | 30,203 |
| Roofing | 164,718 | 47,247 | 2,847 | (1,965) | 212,847 |
| Total Reserves | 376,981 | 59,970 | 5,636 | (34,646) | 407,941 |
| Restate-ASC 606 | (376,981) | (30,960) | 0 | 0 | (407,941) |
| Total Reserves | 0 | 29,010 | 5,636 | (34,646) | 0 |

- For the current year, all required reserves were fully funded.
- Reserve interest is allocated to all reserve categories based on each category balance.

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PEBBLE BEACH VILLAS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table provides the Association's financial assets as of December 31, 2019 reduced by amounts not available for general use within one year because of contractual or other obligations.

LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets at year end:

| | |
|---------------------------|-----------------|
| Cash and cash equivalents | \$68,707 |
| Accounts receivable | \$501 |
| Prepaid Expenses | <u>\$24,512</u> |
| Total financial assets | \$93,720 |

Less those unavailable for general expenses within one year:

| | |
|------------------------------------|-----------------|
| Accounts Payable | \$871 |
| Assessments Paid in Advance | \$24,465 |
| Income Taxes Payable | \$1,039 |
| Total unavailable within one year: | <u>\$26,375</u> |

Final assets available to meet cash needs for general expenses
within one year

\$67,345

The cash balance in excess of daily requirements is invested in short term interest bearing bank accounts.

NOTE 7 – ADOPTION OF ASC 606

FASB ASC 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

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PEBBLE BEACH VILLAS, INC.
NOTES TO FINANCIAL STATEMENTS

- The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and deferred revenue related to the replacement fund, as previously described.

SUPPLEMENTARY INFORMATION

PEBBLE BEACH VILLAS, INC.
Comparison of Actual vs. Budget-Operating
For Year Ended December 31,2019

| | 2018 | | 2019 | | |
|--|----------------|----------------|----------------|----------------|---------------|
| | Actual | Actual | Budget | \$ Variance | % Variance |
| REVENUES | | | | | |
| MAINTENANCE ASSESSMENTS | 303,965 | 288,330 | 288,330 | 0 | 0.0% |
| INTEREST INCOME | 89 | 254 | 0 | 254 | 0.0% |
| LAUNDRY AND OTHER INCOME | 3,276 | 3,332 | 0 | 3,332 | 0.0% |
| TOTAL REVENUES | 307,330 | 291,916 | 288,330 | 3,586 | 1.2% |
| EXPENSES: | | | | | |
| ADMINISTRATIVE | | | | | |
| CPA REPORT | 1,750 | 1,750 | 1,750 | 0 | 0.0% |
| CORPORATE/CONDO FEES | 61 | 349 | 349 | 0 | 0.0% |
| INCOME TAXES | 0 | 1,039 | 0 | (1,039) | 0.0% |
| INSURANCE | 116,106 | 109,592 | 110,774 | 1,182 | 1.1% |
| LEGAL FEES | 195 | 514 | 1,000 | 486 | 48.6% |
| MANAGEMENT FEES | 20,468 | 21,491 | 21,491 | 0 | 0.0% |
| POSTAGE/OFFICE SUPPLIES/COPIES | 2,578 | 2,593 | 1,950 | (643) | -33.0% |
| TELEPHONE | 1,643 | 1,444 | 1,720 | 276 | 16.0% |
| Total · ADMINISTRATIVE | 142,801 | 138,772 | 139,034 | 262 | 0.2% |
| BUILDING OPERATIONS: | | | | | |
| BUILDING MAINTENANCE AND REPAIRS | 8,409 | 12,046 | 8,500 | (3,546) | -41.7% |
| PEST CONTROL-BUILDINGS | 5,479 | 6,496 | 5,800 | (696) | -12.0% |
| CLEANING LABOR | 7,240 | 6,860 | 7,740 | 880 | 11.4% |
| BUILDING MAINTENANCE/CLEANING LABOR | 30,274 | 28,806 | 33,480 | 4,674 | 14.0% |
| Total · BUILDING OPERATIONS | 51,402 | 54,208 | 55,520 | 1,312 | 2.4% |
| GROUNDS/LANDSCAPE CARE: | | | | | |
| GROUNDS/LAWN CONTRACT | 30,324 | 30,924 | 31,800 | 876 | 2.8% |
| IRRIGATION SUPPLIES/ REPAIRS | 3,233 | 2,552 | 1,800 | (752) | -41.8% |
| IRRIGATION WATER | 4,568 | 3,359 | 4,400 | 1,041 | 23.7% |
| PLANT REPLACEMENT AND MULCH | 3,198 | 7,058 | 5,000 | (2,058) | -41.2% |
| SPRAYING AND FERTILIZING | 5,340 | 5,620 | 5,300 | (320) | -6.0% |
| TREE TRIMMING AND PRUNING | 5,064 | 4,710 | 7,000 | 2,290 | 32.7% |
| Total · GROUNDS/LANDSCAPE CARE: | 51,727 | 54,223 | 55,300 | 1,077 | 1.9% |
| RECREATION FACILITIES: | | | | | |
| CLUBHOUSE REPAIRS | 952 | 3,024 | 1,000 | (2,024) | -202.4% |
| POOL SUPPLIES AND REPAIRS | 5,086 | 3,140 | 3,000 | (140) | -4.7% |
| TENNIS COURT REPAIRS | 0 | 151 | 200 | 49 | 24.5% |
| Total · RECREATION FACILITIES | 6,038 | 6,315 | 4,200 | (2,115) | -50.4% |

PEBBLE BEACH VILLAS, INC.
Comparison of Actual vs. Budget-Operating
For Year Ended December 31,2019

| | 2018 | 2019 | | | |
|-------------------------------------|----------------|-----------------|----------------|------------------------------|-----------------------------|
| | <u>Actual</u> | <u>Actual</u> | <u>Budget</u> | <u>\$</u> <u>Variance</u> | <u>%</u> <u>Variance</u> |
| <u>EXPENSES (continued):</u> | | | | | |
| UTILITIES: | | | | | |
| ELECTRICITY | 10,168 | 8,746 | 10,000 | 1,254 | 12.5% |
| TRASH REMOVAL | 4,965 | 8,936 | 4,500 | (4,436) | -98.6% |
| WATER AND SEWER | 23,626 | 24,246 | 25,000 | 754 | 3.0% |
| Total · UTILITIES | <u>38,759</u> | <u>41,928</u> | <u>39,500</u> | <u>(2,428)</u> | <u>-6.1%</u> |
| OTHER: | | | | | |
| CONTINGENCY | 1,495 | 9,604 | 3,000 | (6,604) | -220.1% |
| Total · OTHER | <u>1,495</u> | <u>9,604</u> | <u>3,000</u> | <u>(6,604)</u> | <u>-220.1%</u> |
| TOTAL EXPENSES | <u>292,222</u> | <u>305,050</u> | <u>296,554</u> | <u>(8,496)</u> | <u>-2.9%</u> |
| NET SURPLUS (DEFICIT) | <u>15,108</u> | <u>(13,134)</u> | <u>(8,224)</u> | <u>(4,910)</u> | |

PEBBLE BEACH VILLAS ,INC.
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2019

The Board of Directors conducts an annual study to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from various sources; such as licensed contractors who inspected the property, invoices from the recent acquisition of replacement of certain common property, and telephone inquiries of licensed contractors for estimated costs to replace.

Estimated Useful Life in

| <u>Component</u> | <u>Estimated Useful Life in</u> | | <u>Requirements</u> | | | <u>Replacement Fund Balance At 12/31/2019</u> |
|---|---------------------------------|------------------------|---|---------------------|-----------------------------------|---|
| | <u>Full Life</u> | <u>Years Remaining</u> | <u>Estimated Current Replacement Cost</u> | <u>Full Funding</u> | <u>Budgeted 2020 Full Funding</u> | |
| Roofing | 20 | 7 | \$ 600,000 | \$ 54,986 | \$ 54,986 | \$ 212,847 |
| Buildings | 20 | 7 | 100,000 | 4,611 | 4,611 | 67,482 |
| Paving | 25 | 7 | 170,000 | 20,002 | 20,002 | 30,203 |
| Painting | 7 | 2 | 85,000 | 1,470 | 1,470 | 81,678 |
| Recreation | 20 | 6 | 50,000 | 5,511 | 5,511 | 15,731 |
| Totals | | | <u>1,005,000</u> | <u>86,580</u> | <u>86,580</u> | <u>407,941</u> |
| Restatement per ASC 606 | | | | | | (407,941) |
| Adjusted Totals as of December 31,2019 | | | | | | <u><u>0</u></u> |